



# The Sacramento Bee

## **Foreclosures soar to state record Fed rate cut unlikely to have major impact**

By Dale Kasler

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A desperate slashing of interest rates may ease some of the nation's economic jitters but may not be enough to stave off recession. It also probably won't provide an immediate fix for a deepening foreclosure crisis that has moved into uncharted territory in California.

As the Federal Reserve announced a key interest-rate cut of three-quarters of a point Tuesday, new statistics showed that foreclosures and defaults during the fourth quarter of 2007 were the highest ever recorded in California. One analyst said it's likely that foreclosures will continue to climb.

DataQuick Information Systems Inc. said foreclosures in California jumped to 31,676 in the quarter, the most since DataQuick began tracking those numbers in 1988. For the whole year, foreclosures rose sevenfold, to a total of 84,375.

The increase was nearly as bad in the eight-county Sacramento region, where 10,049 homeowners lost their properties to lenders over the course of the year.

Perhaps more troubling was the continued rise in notices of default, issued by lenders after homeowners miss two or three mortgage payments. Defaults often lead to foreclosures.

Statewide defaults totaled 81,550 in the fourth quarter, the most since DataQuick began compiling those figures in 1992. Defaults more than doubled, to 254,824, for the entire year.

In Amador, El Dorado, Nevada, Placer, Sacramento, Sutter, Yolo and Yuba counties, defaults more than doubled to 24,787 for the year – a likely sign of more foreclosures to come.

"We're still climbing to a peak in foreclosure activity in California," said DataQuick analyst Andrew LePage. "We don't even have a sign of the peak."

The Fed's interest rate cut is likely to help somewhat. It will translate into lower rates on home equity lines of credit, spelling relief for many cash-strapped homeowners, said Fred Arnold, president-elect of the California Association of Mortgage Brokers.

The cut also may improve consumer confidence and bring some potential homebuyers "out of the woodwork," said Arnold, a broker in the Santa Clarita area.

But the move won't by itself revive California's dormant housing market. Arnold said it will do comparatively little for the thousands of subprime borrowers whose adjustable-rate loans are due to reset this year. The monthly payments for those borrowers will still shoot up significantly, he said.

Some may find relief in a plan announced by the White House last fall that calls for rates on adjustable-rate mortgages to be frozen for certain homeowners who are current on their payments.

For potential buyers, rates on 30-year fixed mortgages already have come down as the market anticipated some lowering by the Fed. But they likely won't go much lower, Arnold said.

Rates are averaging 5.42 percent, according to Bankrate.com. Rates on jumbo loans above \$417,000, a threshold that covers much of the California market, are about a point higher.

However, Steve Galster, co-owner of Galster Group real estate in Fair Oaks, said he was told by a big lender that mortgage rates were declining Tuesday in response to the Fed's decision.

The decision by the Fed also will translate into lower rates on car loans, credit cards and many business loans.

Nonetheless, it's unlikely the cut will be enough to prevent a recession, said senior economist Scott Anderson of Wells Fargo & Co.

"This is not going to be a panacea," Anderson said. "The credit system, the banking system, is very much frozen up. We're concerned about Main Street – the supply of loans to businesses and consumers." He believes the chance of a recession in the next six months is 50 percent.

"It could get ugly very quickly, and this is what the Fed is responding to," he added, noting that the Fed signaled it may cut rates again.

Even if it doesn't prevent recession, Anderson said the Fed's action – in tandem with a \$145 billion economic plan being negotiated by President Bush and Congress – will help the economy recover more quickly.

In California, where the housing slump has pushed unemployment to 6.1 percent, the specter of more foreclosures continues to haunt the economy. Foreclosures add more homes onto an already depressed market as lenders try to dispose of their properties. Nearly half of all sales in Sacramento County in December were homes that had been repossessed.

That trend will continue to drive prices down through 2008, although several agents said they think the decline in prices will ease off. "I think prices might continue to adjust, but I think by far the worst is behind us," said Warren Adams, an area agent who deals in foreclosed properties.

Others see a lot more gloom ahead. Linda Caoili, a Re/Max Gold agent who works with homeowners struggling to prevent foreclosure, said the decline in prices makes some clients feel their home can't be saved.

One Natomas-area client, who bought her home for \$420,000, just watched an identical home across the street sell for \$315,000 after foreclosure, Caoili said. This client, like others, is nearly ready to give up her home.

"They're living on credit cards now. There's no equity left," she said. "I'm seeing people who have been able to hang on (but) are turning around and saying, 'Hey, why am I hanging on? I'm \$150,000 upside down.' "

DataQuick estimates that just 41 percent of those who have received default notices will be able to avoid foreclosure either by refinancing, getting back on track with their payments or selling their homes. A year ago 71 percent were able to avoid foreclosure. The trend reflects, in part, the continued decline in prices, which makes it harder to work out a rescue plan.

The encouraging news is that prices are beginning to fall to a point where buyers are starting to take notice, agents said. Last week DataQuick reported that Sacramento County's median sales prices fell in December to \$280,000, a 28 percent decline from the 2005 peak.

Galster said lenders "are pricing them to sell." His firm just listed an Elk Grove home that sold in 2004 for \$420,000 and fell into foreclosure. The bank is now asking \$299,000.

"I guarantee that'll sell this week," he said. "That is a flat-out bargain." Some houses for sale are beginning to receive multiple offers, he said.

Adams said small investors, the kind who buy a duplex here or there, are starting to drift back into the market.

"That's a big sign to me that things are starting to pencil out," he said.